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FISCAL IMPACT STATEMENT

LS 6757

BILL NUMBER: SB 522

NOTE PREPARED: Jan 28, 2007

BILL AMENDED:

SUBJECT: Health Insurance for Retired State Employees.

FIRST AUTHOR: Sen. Broden

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State

Summary of Legislation: This bill reduces by 50% the percentage of premiums that certain retired state employees and elected officials must pay to participate in the retired state employee health insurance program.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Summary:* This bill permits (1) state employees who retire after June 30, 2007, (2) those who retired before June 30, 2007, and elected to participate in the state employee health insurance program, and (3) who are not eligible for Medicare, to continue to participate in the health insurance program offered to active state employees, but with a reduced premium contribution. The retired employee will be required to contribute an amount equal to 50% of the total premium. Currently, a retired state employee must pay a premium amount that is equal to both the employee share and the employer share. A preliminary estimate of the net additional state expenditures is \$2.5 M to \$3.3 M in FY 2008, \$3.5 M to \$5.9 M in FY 2009, \$4.7 M to \$8.6 M in FY 2010, and \$6.1 M to \$11.8 M in FY 2011. [Net expenditures are anticipated to continue growing past FY 2011; however, later years have at this time not been estimated.] Approximately 55% of the expenditures for personal services in the state budget are paid from the state General Fund and 45% paid from dedicated funds.

Background Information: Currently, state employees may retire with normal retirement benefits if the employee's (1) age is at least 65 and has accumulated at least 10 years of creditable service; (2) age is at least 60 and has accumulated at least 15 years of creditable service; or (3) age is at least 55 and whose age plus years of creditable service sum to at least 85 ("Rule of 85"). In addition, an employee may retire with reduced retirement benefits if the employee's (4) age is at least 50 with at least 15 years of creditable service.

Under current statute, retired state employees who have at least 55 years of age, have completed 20 years of creditable service (10 of which were completed immediately preceding retirement), and have completed at least 15 years of participation in the retirement plan are able to participate in the state employee group health benefit plans. (For employees who retire after December 31, 2006, they must have completed 15 years of service, 10 years of which must be completed immediately preceding retirement.) Also under current statute, the entire cost of the insurance premium, both the employee and the state share, must be paid by a retired employee.

This bill provides that retired employees who are under the age for Medicare eligibility must pay 50% of the total premium, and the state will pay the employer share equal to the other 50%. Currently, the employer share of premiums for active employees for the five health plans ranges from 76.9% to 100% for both single and family coverage.

The number of employees meeting the age and service requirements of the bill and who can be expected to retire are estimated to total 540 to 730 in FY 2008, 570 to 730 in FY 2009, 590 to 720 in FY 2010, and 630 to 740 in FY 2011. These numbers include both the estimated number of employees who would have retired anyway, as well as the estimated number who would not have retired, but would choose to because of the additional incentive provided by the reduced cost of health insurance. These numbers are anticipated to continue growing past FY 2011; however, the number of expected retirements for later years have not at this time been estimated. The annual number of retirees for which the state will be contributing toward retiree health insurance will likely accumulate for several years before a relatively steady state is reached.

Approximately 465 state retirees currently participate in the state employee health insurance program and, under the bill, would be permitted to continue in the program while paying the reduced premiums.

A salary savings is factored into the estimate because of the anticipated hiring of a less expensive replacement for those employees who would not have retired, but will now because of the incentive. An adverse experience factor is also applied to those individuals who would have retired anyway, but would not have chosen to participate in the state health plan were it not for the extra incentive provided by the reduced premium cost. The range in the projected numbers of retirees in future years is due to the unknown extent to which the reduced premium cost will act as an incentive for retirements which would not have otherwise occurred.

This analysis is based on a data set containing the age and service data for 33,500 active state employees as of December 31, 2004. The current age and service profile of the employee population is assumed to be similar.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: Public Employees Retirement Fund data.

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